

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

1304 O STREET, SUITE 200

P. O. BOX 942874 – MS 2

SACRAMENTO, CA 94274-0001

PHONE (916) 323-7111

FAX (916) 323-7123

TTY 711

*Flex your power!
Be energy efficient!*

January 28, 2010

Robert W. Geis
Auditor-Controller
County of Santa Barbara
105 E. Anapamu Street, Room 303
Post Office Box 39
Santa Barbara, CA 93102-0039

Re: County of Santa Barbara Department of Public Works
Audit of Indirect Cost Rate Proposal for FY 2008/09 and 2009/10
File Numbers: P1590-0047 and P1590-0083

Dear Mr. Geis:

We have audited the County of Santa Barbara (County), Department of Public Works, Transportation Division's (Roads) Indirect Cost Rate Proposals (ICRP) for the fiscal years (FYs) ended June 30, 2009, and June 30, 2010, to determine whether the ICRPs are presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 and the California Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. County management is responsible for the fair presentation of the ICRPs. The County proposed indirect cost rates of 55.10 percent and 65.29 percent of direct salaries and benefits for FYs 2008/09 and 2009/10, respectively.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the County. Therefore, we did not audit and are not expressing an opinion on the County's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICRPs. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by County, as well as evaluating the overall presentation.

The accompanying ICRPs were prepared on a basis of accounting practices prescribed in 2 CFR 225 and Caltrans LPP 04-10, and are not intended to present the results of operations of the County in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICRPs, a comparison of the ICRPs to the single audit report for the FY ended June 30, 2008, inquiries of County personnel, and reliance placed on prior audit

work completed in June 2006. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our findings were communicated to the County on August 25, 2009, and are detailed below.

AUDIT RESULTS

Based on audit work performed on the Road's ICRPs for the FYs ended June 30, 2009 and 2010, the indirect cost rates are presented in accordance with 2 CFR Part 225 and LPP 04-10. The indirect cost rates are approved as proposed and the approval is based on the understanding that a carry forward applies and no adjustment will be made to previously approved rates.

Prior Audit Finding

During our audit we followed up on a prior audit finding reported in the FY 2006/07 (file number P1190-0590) ICRP. Our follow up determined that the County has taken adequate corrective action to address the prior finding and it is now closed.

This report is intended for the information of County, Caltrans Management, the California Transportation Commission and the Federal Highway Administration (FHWA). This report is a matter of public record and will be included on the "Reporting Transparency in Government" website.

Please retain the approved ICRPs for your files. Copies were sent to Caltrans District 5, Division of Accounting and FHWA. If you have any questions, please contact Barbara Nolan, Auditor, at (916) 323-7880, or Amada Maenpaa, Audit Manager, at (916) 323-7868.

MARYANN CAMPBELL-SMITH
Chief External Audits

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration,
Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
James Ogbonna, Chief, Rural Transit and Intercity Bus Branch, Division of Mass
Transportation
David Saia, Senior Transportation Engineer, Policy Development and Quality
Assurance, Division of Local Assistance
Jenny N. Tran, Associate Account Analyst, Local Program Accounting Branch, Local
Assistance
Andrew Knapp, Associate Transportation Planner, Regional and Interagency Planning,
Division of Transportation Planning
Larry Newland, Senior Transportation Planner, District 5
Mike Giuilano, Local Assistance Engineer, District 5
P1590-0047 and P1590-0083

Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the County and approved by the Department.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	7/01/08 to 6/30/09	55.10%	All Programs

* Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

FY 08/09 Indirect Costs \$ 4,619,132 <See indirect costs calculation detail page 3>

Carry Forward From FY 2006-07 \$ 285,417 <Carryforward Calculation page 2>

Adjusted Indirect Costs for FY2008/09 \$ 4,904,549

FY 2008/09 Direct Salaries \$ 8,901,967 < See indirect cost calculation detail page 3>
And Wages plus Fringe Benefits

FY 2008/09 Indirect Cost Rate 55.10%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2009 (July 1, 2008 to June 30, 2009) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: County of Santa Barbara

Signature:

Signature:

Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: Robert W. Geis

Name of Official: Mark A. Paul

Title: Auditor-Controller

Title: Chief, Specialty Accounting

Date of Execution: 08/05/09

Telephone No.: 805-568-2141

INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

Signature

Signature

Reviewed and Approved by:

Reviewed and Approved by:

Clifford R. Vose
Name of Audit Manager

Barbara Nolan
Name of Auditor

Title: Audit Manager

Title: Auditor

Date: 1/28/2010

Date: 8/12/09

Phone Number: 916-323-7917

Phone Number: 916-323-7880

Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the County and approved by the Department.

SECTION 1: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	7/01/09 to 6/30/10	65.29%	All Programs

* Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

FY 09/10 Indirect Costs	\$ 5,216,790	<See indirect costs calculation detail page 3>
Carry Forward From FY 2007-08	\$ <u>569,319</u>	<Carryforward Calculation page 2>
Adjusted Indirect Costs for FY2009/10	\$ 5,786,319	
FY 2009/10 Direct Salaries And Wages plus Fringe Benefits	\$ 8,862,054	< See indirect cost calculation detail page 3>
FY 2009/10 Indirect Cost Rate	65.29%	

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2010 (July 1, 2009 to June 30, 2010) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: County of Santa Barbara

Signature:

Signature:

Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: Robert W. Geis

Name of Official: Mark A. Paul

Title: Auditor-Controller

Title: Chief, Specialty Accounting

Date of Execution: 08/05/2009

Telephone No.: 805-568-2141

INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

Signature

Signature

Reviewed and Approved by:

Reviewed and Approved by:

Clifford R. Vose

Barbara Nolen

Name of Audit Manager

Name of Auditor

Title: Audit Manager

Title: Auditor

Date: 1/28/2010

Date: 8/12/09

Phone Number: 916-323-7917

Phone Number: 916-323-7880